

“Pharmacy Benefit Managers: Unveiling the Mystery”

Affordable Medicines Task Force

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May 2003

Questions for Policymakers

- ◆ How does the prescription get from the manufacturer to the patient?
- ◆ How are prescriptions paid for?
- ◆ What is the role of pharmacy in assuring quality and containing costs?
- ◆ How do the financial transactions work throughout the system?
- ◆ What is the “value added” by each part of the system?

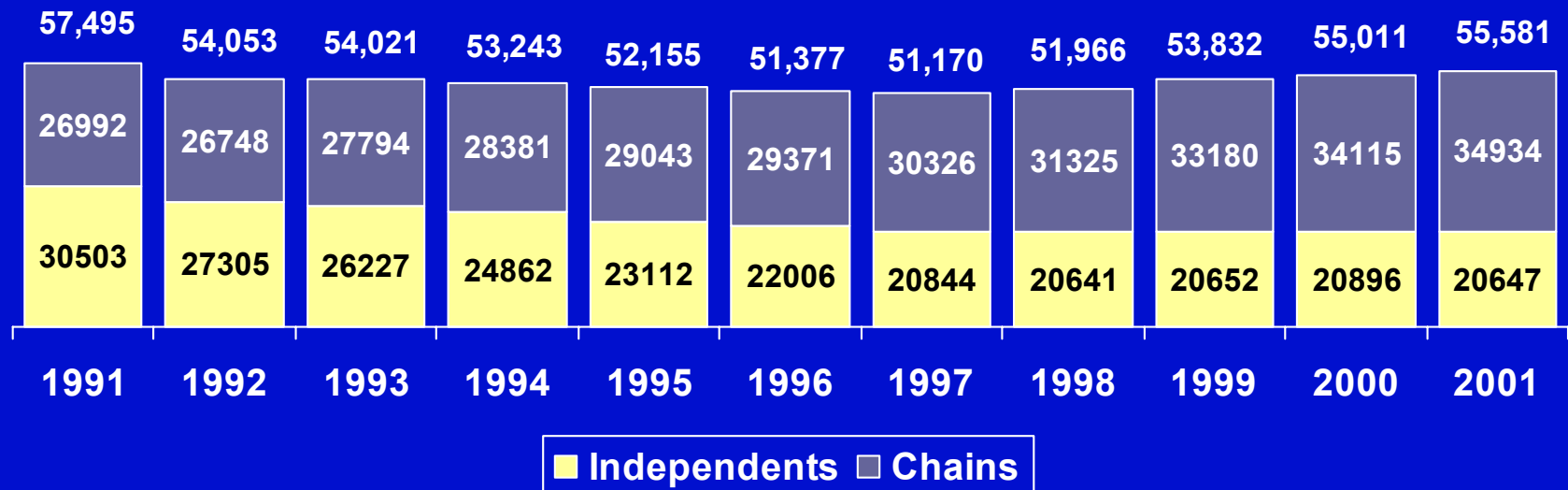
Pharmacy's Perspectives

- ◆ Pharmacists are valuable health professionals that provide important services to patients, including counseling, checking for drug interactions, and providing medication therapy management services
- ◆ Medicare beneficiaries take more medications and need more intense face to face medication management services.
- ◆ Because they take more medications, Medicare beneficiaries should have and need access to their local pharmacy provider.
- ◆ Pharmacy can work with Medicare to improve quality and save money, but have to be compensated appropriately.

Retail Pharmacy: An Economic Force in Communities

Total Employees	2.68 Million
Total Payroll	\$46.4 Billion
Total Sales	\$577.7 Billion
Sales	\$201.9 Billion
(Prescriptions, Health & Beauty, OTC, 2001)	
Total State Taxes Paid	\$20.0 Billion

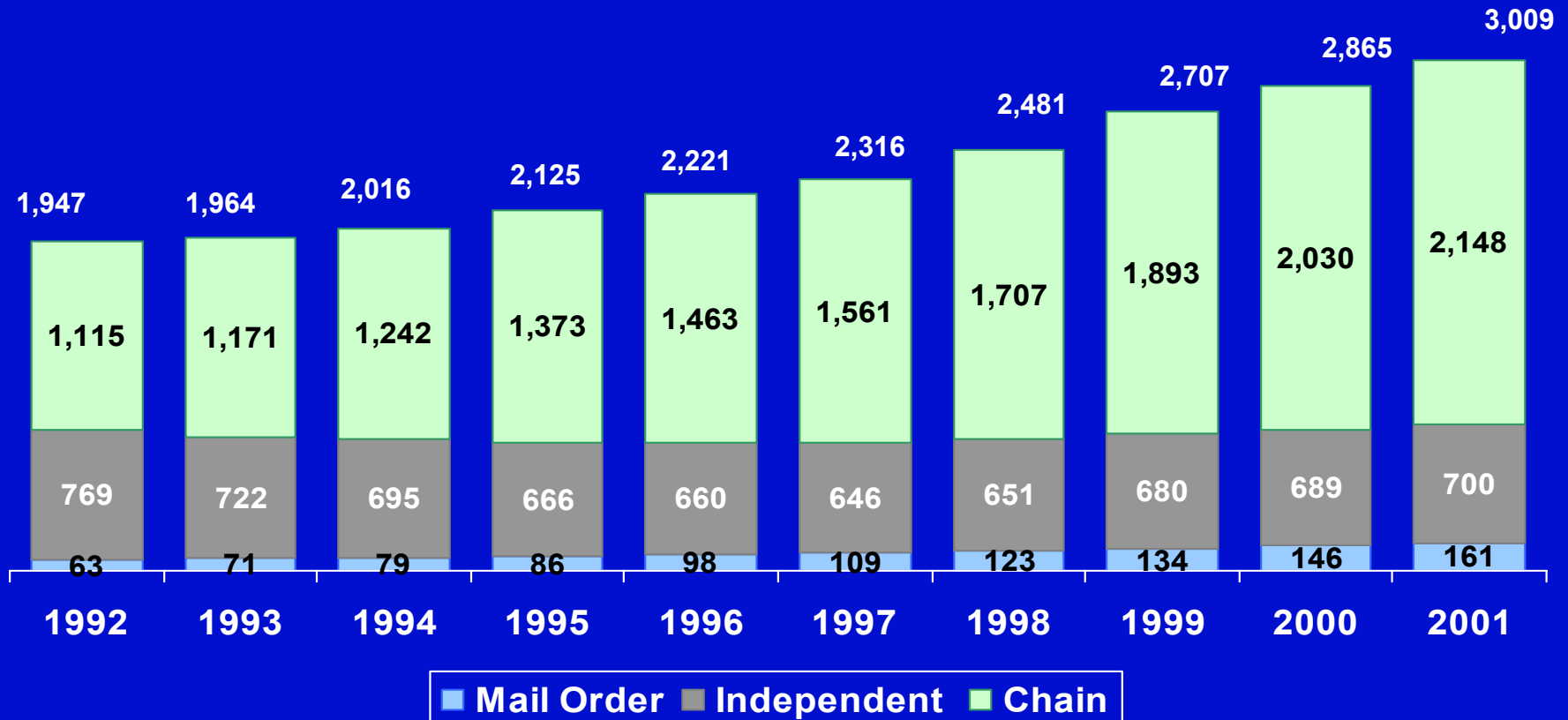
Trends in Community Retail Pharmacy Outlets



Pharmacy Infrastructure

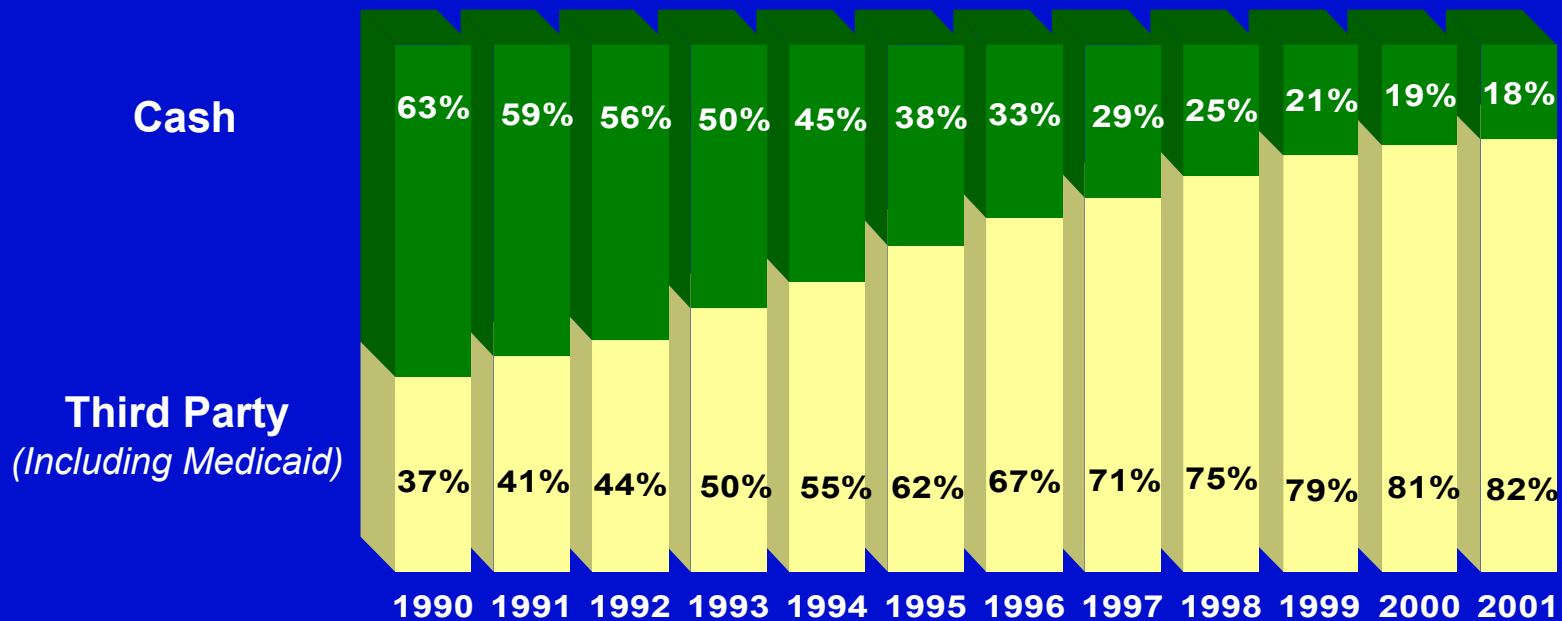
- ◆ 90 percent of Americans live within 5 miles of a retail pharmacy
- ◆ Highly-efficient, high-tech health care delivery system for products and services
- ◆ New products (brand and generics) can be available to patients within 48 hours of launch
- ◆ Many accessible 24 hours day/7 days week
- ◆ Operates at net margin of about 2 percent

Retail Pharmacies Filling More Rx's (in millions)



Of the 3 billion retail Rx's filled in 2001, 71 percent will be filled in community pharmacies

Payment Method for Retail Rxs



82 percent of all retail Rxs are paid for by third parties, such as managed care plans and PBMs

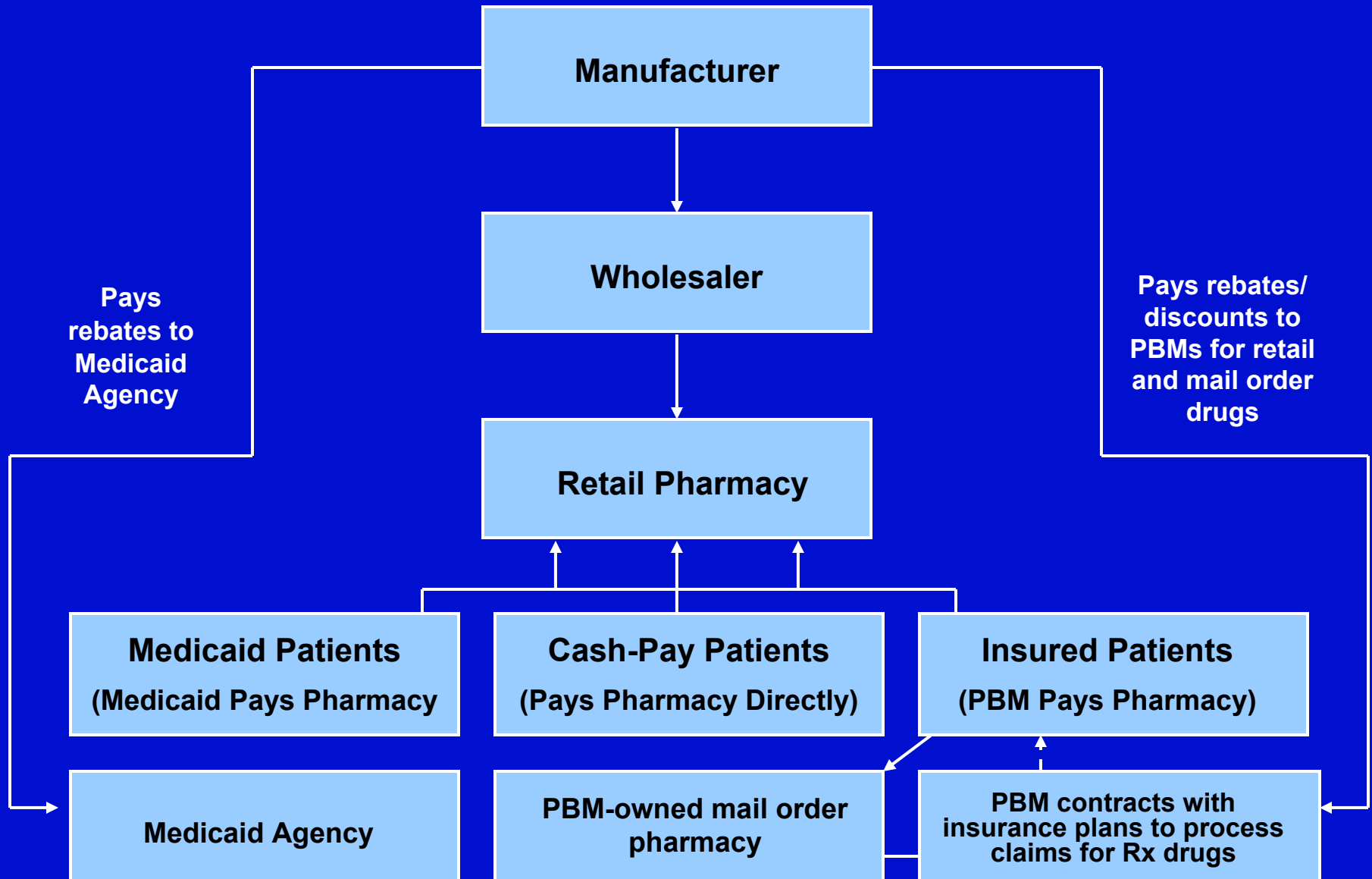
Pharmacy's View on PBMs

- ◆ **PBMs are health claims processors that specialize in paying Rx claims (some PBM business is in mail)**
- ◆ **PBMs are needed to help administer a Rx benefit but their functions should be limited:**
 - *needed for enrollment, network development, claims adjudication and payment*
 - *full rebate transparency and pass through needed*
 - *should not be allowed to shift patients to own mail order facilities*
 - *should not practice medicine and pharmacy*
- **PBMs should be paid for the value that they deliver**

Trends in Rx Benefit Management

- ◆ **Some employers/providers taking Rx benefits management functions in house**
 - *Allows them to retain full rebates and other manufacturer price concessions*
 - *PBMs do not retain “pharmacy spread” on network rates and generic pricing*
- ◆ **FEHBP just asked that its own health plans provide more oversight of PBMs**
 - *GAO Report: PBMs would not report rebates and discounts received to GAO*

Prescription Distribution & Payment System



Transparency and Responsibility in Financial Incentives

- ◆ **Transparency could lower costs for Medicare and seniors:**
 - *Public reporting of data needed*
 - *PBMs inappropriately include “cost of goods” and patient copays when estimating profits*
 - *Reduces PBM financial “incentives”: retaining pharmacy spread, not passing along majority of rebates, using different data updates and AWP, etc.*
- ◆ **PBMs should act as a fiduciary in the best interest of Medicare beneficiaries**

Mail Order Options

◆ Need to level the playing field between mail order and retail:

- *Patients should have fair choice and when given choice will choose their local pharmacy*
- *no state or Federal law prohibiting pharmacies from providing a 90-day supply;*
- *conflict for mail firms to use coverage or cost sharing incentives to shift from retail to mail;*
- *conflict of interest for retail/mail contractor to serve as PBM in same region*

Retail vs. Mail Economics

◆ Cost Sharing

- *Mail cost sharing increasing at higher rate than retail - higher patient cost sharing at retail means more savings to plan sponsor*

◆ Higher Generic Use at Retail

- *Generic share at retail 4-5% higher for maintenance drugs*

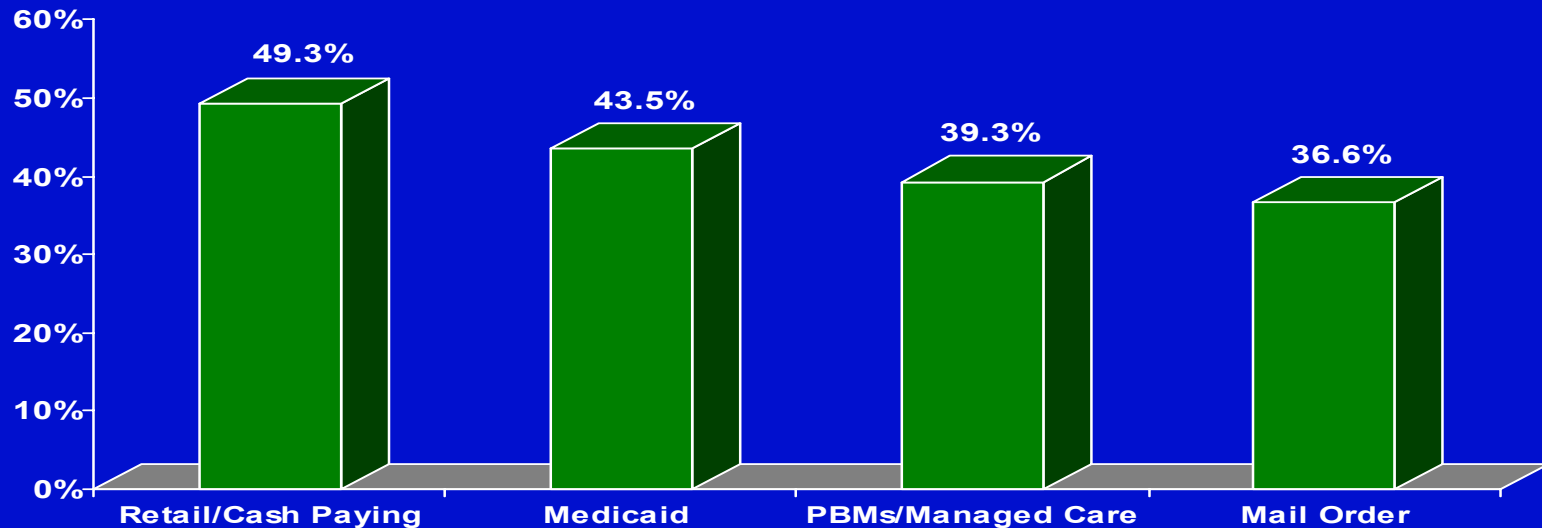
◆ Less Reliance on Rebates

- *Employees end up paying for higher-priced drugs*

◆ Less Waste at Retail

- *Waste in 90-day mail order estimated to be 3-5% of overall Rx spend*

Retail Pharmacies Use Generics More than PBMs or Mail Order (% Rxs filled with generics)



Retail Pharmacies Have Best Generic Use

Retail pharmacy achieves higher generic share and utilization than mail in the top 10 mail order markets

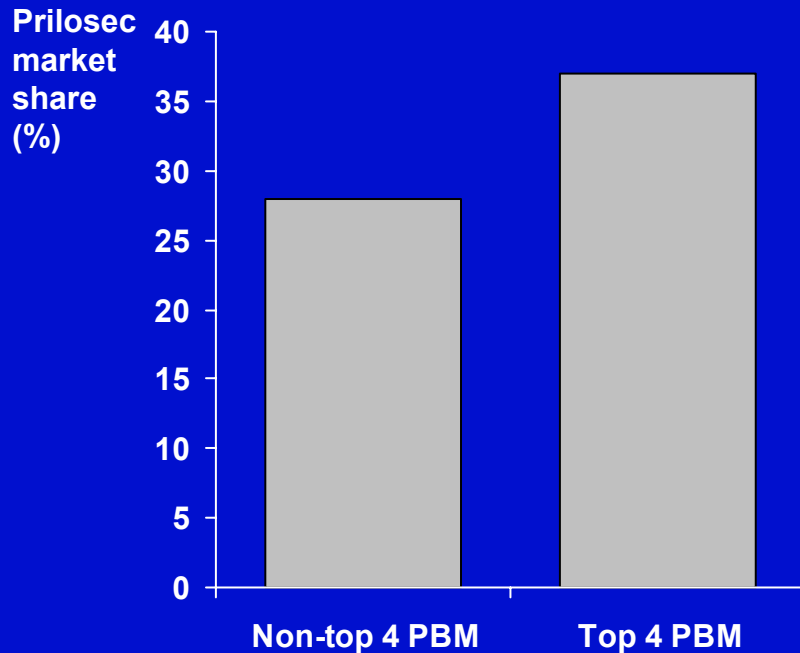
	Generic Share		Generic Utilization	
	Mail	Retail	Mail	Retail
Chicago	32%	38%	79%	81%
Boston	37%	43%	79%	84%
New York	33%	36%	78%	80%
Philadelphia	32%	38%	78%	81%
Washington, DC	29%	35%	75%	77%
Houston	27%	34%	74%	80%
Los Angeles	34%	41%	79%	83%
Detroit	30%	38%	78%	81%
Pittsburgh	37%	42%	81%	85%
Dallas	28%	33%	77%	80%

Note: Only maintenance drugs were included in the analysis

PBMs' rebate-driven model can drive patients to higher cost brands

Proton Pump Inhibitor Case Study

The top 4 PBMs process a disproportionate number of Prilosec prescriptions



Even though Prilosec is \$25 (15%) more expensive than substitutes



Costs \$60,000 per year for a 50,000 employee company just for Proton Pump Inhibitors**

* Substitutes include Aciphex, Prevacid, and Protonix

** Includes the gained rebates through high rate of Prilosec dispensing

Source: NDC Health

Conclusions

- ◆ **Policymakers should value the contributions made by retail pharmacy delivery system**
- ◆ **Retail pharmacy financial incentives aligned with those of payors, seniors**
- ◆ **PBMs or other contractors should act in the interest of beneficiaries and seniors**
- ◆ **Transparency in the system would lower costs, improve quality, and add accountability**
- ◆ **Level playing field for mail and retail would preserve choice and increase competition**